

Building Value for Your Exit Strategy

For Dealership Owners and Other Business Principals

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Topics

- Exit Plan Definition and Elements
- 4 Different Exit Paths
- The “Long Pass” – A deeper look at the process of selling a business to a third party
- How to Build the Value of your Business
- Questions



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What is an Exit Plan?

Simply put, an Exit Plan is a detailed strategy by which you organize and run your business today, all for the end result of being able to leave your business in the manner in which you desire, within the timeframe in which you desire, and with the financial wherewithal to fulfill your future goals.

An Exit Plan puts you in control of your business and your destiny!

PLAN + EXECUTION = VICTORY!!



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Who Needs an Exit Plan?

Time for some self-assessment:

- Is your business your largest asset?
- Does the daily grind of managing your dealership leave little time to think about long-term goals and strategy?
- Is your dealership poised for additional growth or expansion?
- Are you measuring long-term dealership financial success by counting the daily till?
- Did you say to yourself at the beginning of this seminar - “What’s an Exit Plan??”

If you can answer “Yes” to any of these questions, an Exit Plan is for YOU!



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Elements of a Good Exit Plan

A properly prepared Exit Plan will:

- Evaluate your current personal financial position and business value.
- Develop a strategy to both protect and maximize your business value.
- Determine your “Gap Number” – the amount of money you need before you can exit your business.
- Develop a contingency plan for unexpected events that might effect the continuity of your business.
- Assess your business ownership transfer options in the most financially beneficial and tax-efficient manner possible.

A goal without a plan is
just a wish.

~Antoine de Saint-Exupery



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What are the Paths of Exit?

One way or another, ALL business owners will exit their business.

- The Hand-off – Transferring your business to your spouse, children, or other heirs.
- The Short Pass – Transferring your business to your business partner(s) or key employee(s).
- The Kneel-down – The shut-down and liquidation of your business, either planned or unplanned.
- The Long Pass – Transferring your business to a third party.

Each of these exit paths requires a unique and detailed Exit Plan!

“In this world nothing can be said to be certain, except death and taxes”.

Benjamin Franklin



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The Hand-Off

Transferring the ownership of your business to your heirs.

- **Identify** – Determine which of your heirs would actually want to take over for you one day.
- **Qualify** – Is your selected heir qualified to take over for you? What kind of training are you implementing to ensure this?
- **Assess** – Periodically reassess your heir's management abilities, and whether he or she is on track with your desired timeline. Periodically reassess your heir's continued desire to take over for you.
- **Timing** – Will this be a gradual hand-off over time, or all at once?



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The Hand-Off

Transferring the ownership of your business to your heirs.

- **Fairness** – Do you have some heirs outside of your business, who have no interest in carrying it on? Construct an Exit Plan that is fair to ALL heirs.
- **Liquidity** – A Hand-Off doesn't necessarily mean a cashless transaction. If your heirs will be buying you out, establish a methodology to accomplish this.
- **Taxes** – Tax planning is CRUCIAL for all form's of exit, but perhaps more so with this one. Plan carefully with your advisors!



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The Short Pass

Transferring the ownership of your business to your partner(s) or key employee(s).

- **Partner(s)** – Using your advisory team, create a Buy-Sell Plan to accomplish an orderly transfer of your business interest to one or more of your partners. A good Buy-Sell Plan will, at the very least, clearly address:
 - **Trigger Point** – That which puts the Buy-Sell Plan in motion (death, disability, retirement, etc.).
 - **Business Value** – An agreed upon approach to properly valuing your portion of the business.
 - **Payment Methods** – Lump sum, payment over time, a combination of both?
 - **Liquidity** – Ensure that there will be sufficient funds available to your partners to fully execute the Buy-Sell Plan.



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The Short Pass

Transferring the ownership of your business to your partner(s) or key employee(s).

- **Key Employee(s)** – If it is your desire to sell to one or more key employees, the following main points need to be considered:
 - **Main Issues** - The same issues affecting a transfer of ownership to partners are applicable here as well - Trigger Point, Business Value, Payment Methods and Liquidity.
 - **Qualify** - Similar to the Hand-Off method, it is important to consider the qualifications and management ability of your chosen successors. It is important to periodically assess this, as well as their continued desire to step into your shoes.
 - **Retention** – If you are many years away from your planned exit, you should consider some form of “Golden Handcuffs” for your key employees, to keep them in the game until you are ready to exit.



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The Kneel-Down

The shut-down and liquidation of your business, either planned or unplanned.

What might set this exit path in motion:

- Death or retirement of the sole business owner, particularly when he or she was the most important asset of the business.
- No qualified heirs or key employees for a Hand-Off path.
- Environmental Catastrophe – Fire or storm damage, and the net rebuilding costs are more than the business is worth.
- Economic Catastrophe – Either on a local or global scale (remember 2008-2009?), and there are not sufficient funds to wait it out.
- And Perhaps Most Importantly – Failure to have an Exit Plan to contend with the above!



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The Long Pass

Transferring the ownership of your business to a third party.

Many times, there isn't a family heir or key employee with the wherewithal or desire to take over your business. And, if you happen to have a partner, that partner may also have shortcomings regarding buying out your portion, or you and your partner would like to simultaneously exit. In that case, a third-party buyer must be found. While there will be extra steps involved in this exit path, there can also be several benefits:

- **Better Exit Price** – Oftentimes, a third-party buyer will pay a higher price for your business, and isn't looking for the "deal" that your inside parties may be expecting.
- **Better Wherewithal** – A third-party buyer is, more often than not, better prepared financially to buy your business than insider candidates. Unless a definitive funding plan has been in place for many years, your insiders typically find themselves short of cash on your desired exit day.



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The Long Pass

Transferring the ownership of your business to a third party.

Several additional considerations arise with the Long Pass exit path. They are:

- Recruitment of additional members to your advisory team – One or more of the following may be necessary:
 - Business Broker
 - Mergers & Acquisition Attorney (if your usual attorney is not qualified or not comfortable with M & A transactions).
 - Tax Accountant (if your usual accountant or CPA is not qualified or not comfortable with M & A transaction structures for tax purposes).
- Your extended advisory team will address the following:
 - The business's value.
 - The marketing plan to sell your business.
 - The preparation of a purchase agreement.
 - The likely best deal structure for you (asset sale vs. stock sale, etc.).
 - The tax implications of the transaction.



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Your Advisory Team

Every good Exit Plan begins with your Advisory Team. They are your “Coaching Staff” that’s going to keep you in the game as you head toward victory!

- **Defensive Coordinators**

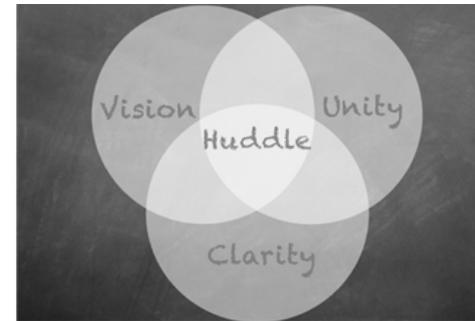
- Corporate Attorney
- CPA
- Insurance Planner
- Tax and Benefits Planner

- **Offensive Coordinators**

- Business Operations Consultant
- Peer Group

- **Special Teams**

- Wealth Management Expert
- Business Broker
- M & A Specialist Attorney and/or Accountant



The key to any successful Coaching Staff is that they must work TOGETHER!



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Business Value

Every good Exit Plan includes a valuation study of your business, which is to be updated throughout the duration of your plan. Your business's performance and earnings power will be the primary driver, regardless of valuation methodology used.

- The different types of valuation studies are:
 - **Opinion of Value** – Typically prepared by a business broker, business consultant, or a combination thereof, the Opinion of Value is a surface-level view of the value of your business, and will be based upon a limited amount of provided financial data, as well as comparisons of your business to transactions currently taking place in the market. The preparer will often take their personal experiences into account when rendering the value, hence the term “Opinion” of Value.
 - **Certified Business Appraisal** – Similar to the Opinion of Value, but performed by a licensed Certified Business Appraiser (CBA). Typically speaking, the CBA will take a more impartial view of the business value, and will dive deeper into the business's financials and how they stand up to industry norms.



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Business Value Maximization

Some of the macro-economic factors affecting your business's value:

- **Market Location** – Population and position.
- **Market Reputation** – Highly favorable rating to the public. Online ratings.
- **Product Lines** – The importance of market share.
- **Growth Curve** – 3 to 5 years of measurable sustained growth?
- **Facility** – A balance of attractiveness and affordability.
- **Quality of Tangible Assets** – Will a new owner feel the need to repair and replace?



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Business Value Maximization

Some of the proactive steps you can take to MAXIMIZE your business's value:

- **Management team** – By the time of your exit, you DO NOT want to be the most important member of your organization. Keep your management team poised for continued growth without you. Key elements are:
 - **Hiring** – Be proactive, not reactive!
 - **Training** – Teach them *strategic* thinking, above and beyond daily policy.
 - **Motivation** – Have a value-added pay component to every member of your staff, related to the things they can control.
 - **Assessment** – Employees crave your feedback. Give it to them! And on a regular basis!
 - **Pruning** – Even the best of efforts aren't always successful. Whether a bad fit, or just a dud, occasionally an employee just doesn't fit the bill. Do not delay your pruning – you owe it to the rest of your team (and yourself)!



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Business Value Maximization

Some of the proactive steps you can take to **MAXIMIZE** your business's value:

- **Dealership Management System (DMS)** – Get automated! A good DMS will have at least the following traits:
 - A Customer Relationship Management (CRM) component – Traffic logs, customer contact information, communication scheduling, etc.
 - Daily Departmental Functionality – Vehicle sales, parts/accessories sales, service, F & I.
 - Compliance Management – Taxes, governmental reporting, etc.
- **Financials** – You've heard - “Only that which can be measured, can be improved”. And while not every positive dynamic occurring in your dealership is easily measurable, you owe it to yourself, and the future owner of your business, to at least have an accurate and timely set of books.

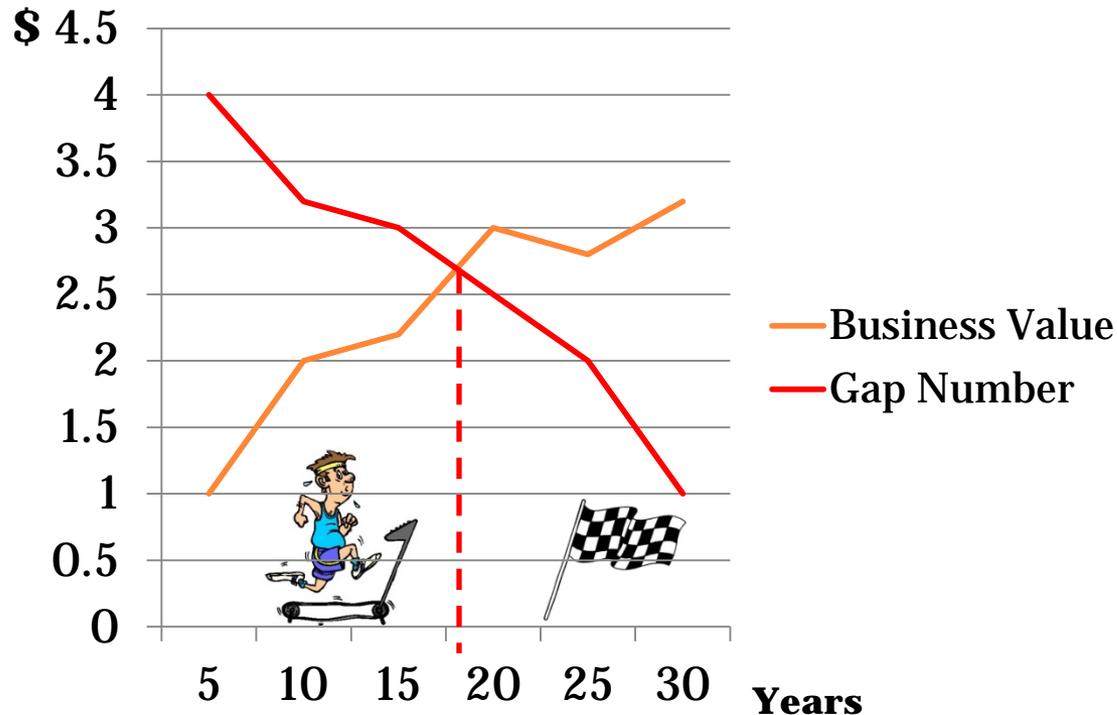


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Your “Gap Number”

Perhaps the most important component of your Exit Plan



Your “Gap Number” is the amount of proceeds you need from the exit of your business, above and beyond your then existing personal wealth, to fulfill your remaining life goals.

This can be relative to retirement, acquiring another business, or moving on to other employment.

In terms of selling to a third party, a buyer will not equate the business value with “what you need to exit.”



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In Summary

- More than 90% of business owners do not have an Exit Plan – Don't be that guy!
- Most business owners do not know what an Exit Plan is – Now you have a leg up!
- Exit Plan = Control! – Control of your business, and control of your future!
- When should you begin planning your exit? – Right now!!!



In Summary

A properly constructed Exit Plan will:

- Be Collaborative – You and your Coaching Staff will discuss your life goals and plan accordingly.
- Be Written – No one can read your mind. The plan must be written and communicated clearly.
- Be Reviewed – Things change. Review your plan with your Coaching Staff at least annually.
- Manage Risk – Unintended things happen all the time. Your Exit Plan will include methods to manage the risks.
- Guide You Financially – It will seek to MAXIMIZE your personal wealth, while MINIMIZING your “Gap Number”.
- Provide Peace of Mind – Remember, a goal without a plan is just a wish!



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A Final Parting Statistic

Baby Boomers (those born between 1946-1964), outnumber Generation X (those born between 1965-1980) by about a 3:2 margin!

Why is this important?

Because the largest retirement bulge in the history of the USA is upon us, as the Baby Boomer generation begins to exit the workforce.

And why is this particularly important for Baby Boomer business owners?

Because for those business owners exiting via the Long Pass, Generation X will be the buyers for your business. And there will be more sellers than buyers!

It will be IMPERATIVE, as an exiting Baby Boomer (and prior) business owner to get your house in order NOW! When it's time for your exit, your biggest competitor will not necessarily be the dealership or business down the street, but all the business owners who are trying to exit at the same time you are. Set yourself apart, by developing an Exit Plan TODAY!



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